

**Total Compensation Advisory Council (TCAC)**  
Minutes of the Meeting of November 5, 2004

**Present:** Patty Goodwin  
Mary Ann Myer  
Joe Nicolini  
John Postolowski  
Deb Roberts

**DPA** Jeff Schutt  
Karen Fassler  
Sue Huang  
Vinita Biddle  
Suzanne Kubec  
Marilyn Jordan

**Guest:** Dennis Gatlin PERA

The minutes from the August 6, 2004, meeting were approved as written.

**Benefits Update:** Sue Huang reported that the task force charged with analyzing the feasibility of returning to self-funding of the state's medical and dental plans has recommended to Jeff Wells, Executive Director of DPA, that we go forward with self-funding. Proposals for both fully insured and self-funded plans have been reviewed and recommendations of finalists will soon be made. A decision about proceeding with self-funding has not yet been made.

**Civil Service Reform:** Jeff Schutt said Civil Service Reform had been put on the agenda in anticipation of passage of this ballot initiative. However, since the initiative failed, discussion was no longer necessary.

**PERA:** Dennis Gatlin, Manager of Field Education for PERA, spoke about PERA-related legislation that had passed during the 2004 legislative session.

Due to the passage of HB04-132, the PERA Match Maker program ended on June 1, 2004, seven months earlier than planned. The early demise of the program came about because PERA was no longer fully funded. By ending the Match Maker program, the money that had been going into employees' defined contribution plans will now be redirected to help reduce PERA's unfunded liabilities. The bill also lowered the interest rate that accumulates on member contribution accounts. Another provision of the bill was to shorten the time period employers have in order to forward employees' PERA contributions. The percentage of the employer contribution that was going into the Health Care Trust Fund was also lowered.

Two changes were made affecting new hires only. One was a small change to the retirement chart affecting only employees who fall within certain age and service year categories. The other change will affect the annual increase to retiree payouts.

SB04-257 set up the opportunity for PERA to offer a defined contribution plan beginning in 2006 as an alternative to the defined benefit plan. Another provision of the bill specified that employer contribution rates would be gradually increased over the next few years.

Mr. Gatlin said the tremendous amount of service credit purchased from January 1, 2003, through October 31, 2003, resulted in greater accrued actuarial liabilities. However, despite this and the fall in the funding level, he assured the Council that the funding level was adequate and should not be cause for concern. He also recommended that anyone planning to purchase service credit should do so before November 1, 2005. After that date, the purchase price of service credit will go to the actuarial cost, which is significantly higher than the present cost.

**SB04-257:** Suzanne Kubec said she had been asked to address this legislation in her capacity as administrator of the Public Officials and Employees Defined Contribution Plan, which is an alternative to PERA's defined benefit plan. At the present time, there are approximately 500 eligible employees, half of whom participate. Starting January 1, 2006, eligibility for this plan will be extended to all new hires.

The bill also creates a new defined contribution plan, also an alternative to PERA's defined benefit plan, to be administered by PERA and available to all new hires starting January 1, 2006.

Starting January 1, 2006, a new hire will have three options: the defined benefit plan offered by PERA, the defined contribution plan offered by PERA, or the state's defined contribution plan.

Presently the state is preparing an RFP for three bundled providers for the state's defined contribution plan with contracts becoming effective on July 1, 2005. The RFP is due to be released the middle of November. Suzanne added that an RFP will be released for a new third-party administrator for the 457 Plan.

**Health Savings Accounts:** Vinita Biddle gave a presentation regarding HSAs. An HSA is a new program providing a tax-favored savings account in which individuals can put aside pre-tax money to be used for qualified medical expenses. If the money is withdrawn for qualified medical expenses, there is no tax on the withdrawal. While a person does not have to be employed to use an HSA account, one must be covered by a qualified high deductible health plan (HDHP) and have no other medical coverage that is not a HDHP. The person cannot be claimed on someone else's tax return as a dependent nor be enrolled in Medicare.

Presently, the state offers no high deductible health plan that meets the definition stated in this enabling legislation. Several things are required for a plan to satisfy this definition. It must have an annual deductible for employee-only coverage of \$1,000, with a cap of \$5,000 for out-of-pocket expenses. For families the deductible has to be at least \$2,000, with a cap of \$10,000 for out-of-pocket expenses. In addition, in order to

qualify, a plan cannot pay any expenses except for preventive care until the deductible has been met. Therefore, there can be no “first-dollar” coverage for prescriptions. Participation in a traditional flexible spending account is also prohibited.

It is anticipated that this type of program will appeal mainly to persons who are healthy and those who have sufficient income to afford the contributions to an HSA. In order for the state to offer a qualified HDHP, it was necessary to consider whether such a plan would draw healthy individuals away from other state offered plans to the detriment of such plans.

Although we intend to offer a qualified high deductible health plan in July 2005, we will probably not be able to offer an HSA at that time. To set up an HSA itself requires establishment of a trust, which requires set-up money and plan documents. However, employees enrolled in the HDHP will be free to purchase an HSA elsewhere beginning July 2005.

**Open Enrollment:** Marilyn Jordan provided an update on open enrollment for 2005. She said open enrollment was in progress for the short plan year. It has been going on since October 18 and closes at midnight on November 6. The system will close down for one week for reporting purposes and for data cleansing. The system will reopen the following week so that benefit administrators can make corrections. Open enrollment files will go to the carriers at the end of November to transmit enrollment information and for generation of ID cards. ID cards should arrive by the middle of December. The open enrollment system will remain available for the entire month of December for input of new hires, with the final file going to the carriers at the end of December.

In the spring, there will be a positive open enrollment conducted approximately mid April to early May. It may be a staggered open enrollment, with, for example, different agencies being able to enroll at different times. There will be an intense communication effort made in order to assist employees in making a decision about coverage for the new plan year.

Tentative Agenda for January 28, 2005

December update to survey and director’s recommendation  
Update of the benefit plans  
Legislative update  
Rules update